



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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March 20, 2015

To: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

From: Sachi A. Hamai   
Interim Chief Executive Officer

Board of Supervisors  
HILDA L. SOLIS  
First District

MARK RIDLEY-THOMAS  
Second District

SHEILA KUEHL  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## WASHINGTON, D.C. UPDATE ON HOUSE BUDGET COMMITTEE'S FEDERAL FISCAL YEAR (FFY) 2016 BUDGET RESOLUTION

### Executive Summary

On March 18, 2015, the House Budget Committee began to mark up its Federal Fiscal Year (FFY) 2016 budget resolution, which, according to the Committee, would reduce the Federal budget deficit and spending by \$5.5 trillion over the next ten years. The largest estimated budget savings would come from repealing the entire Affordable Care Act (\$2.042 trillion) and reducing Medicaid spending by \$913 billion by replacing the current open-ended Medicaid entitlement with a state block grant funded at lower levels. The budget resolution also calls for a \$1.064 trillion reduction in non-health/Social Security mandatory (entitlement) spending and \$759 billion reduction in non-defense discretionary programs. It does not specify how these mandatory and discretionary spending cuts would be made, but it assumes that the Supplemental Nutrition Assistance Program (SNAP), which funds CalFresh in California, will be converted into a state block grant.

If enacted, the House budget resolution's spending reductions would result in a major Federal revenue loss to the County, especially under Medicaid, which currently accounts for the County's total Federal revenue. Based on the Congressional Budget Office's (CBO) estimate of future Medicaid spending under current law, Medicaid alone would be cut by more than 21 percent. The County also is likely to receive significantly

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less funding through annual appropriations bills in the future. Overall non-defense discretionary spending would be reduced by an average of nearly 13 percent in FFYs 2017 through 2021, the first five years of non-defense discretionary spending cuts.

### **Purpose of the FFY 2016 Budget Resolution**

The purpose of the FFY 2016 budget resolution is to set non-binding spending and revenue targets to guide Congressional action on fiscal legislation, including appropriations and tax legislation. While it is called the FFY 2016 budget resolution, it sets spending and revenue targets for 10 years through FFY 2025, consistent with how the Congressional Budget Office (CBO) scores (estimates) the budgetary impacts of legislation over 10 years. Because budget resolutions are not enacted into law, they only require joint approval by both houses and not the President's signature.

A budget resolution can include reconciliation instructions to committees to approve legislation to change mandatory spending and/or revenues to meet the spending or revenue targets in the budget resolution. Budget reconciliation instructions are important because budget reconciliation legislation cannot be filibustered in the Senate, and, therefore, can pass the Senate on a simple majority rather than a 60-vote majority.

Congress has not approved a concurrent budget resolution since the FFY 2010 budget resolution included reconciliation instructions that were used to pass the Affordable Care Act (ACA) as a budget reconciliation bill without the "aye" vote of any Republican senator. This is largely because, in the past two sessions of Congress, the Republican-controlled House and Democrat-controlled Senate had extremely different budget priorities. This year, the leadership of the Republican-controlled Senate and House have indicated that they intend to approve a FFY 2016 budget resolution, which includes reconciliation instructions to facilitate Congressional passage of mandatory spending cuts and tax legislation which they support.

### **House Budget Committee's FFY 2016 Budget Resolution**

On March 17, 2015, the House Budget Committee released a detailed summary of its FFY 2016 budget resolution, but its draft text of the budget resolution has blanks for the dollar amounts of its spending and revenue targets. Based on its summary, the budget resolution would balance the Federal budget in less than 10 years without raising taxes by cutting \$5.5 trillion in Federal spending over the next 10 years, as follows:

- Repeal the entire Affordable Care Act (\$2.042 trillion savings);

- Reduce Medicaid spending by \$913 billion by replacing its open-ended entitlement financing with a state block grant funded at lower levels beginning in FFY 2017;
- Reduce Medicare spending by \$148 billion;
- Reduce Social Security spending (\$4 billion);
- Reduce other mandatory (entitlement) spending by \$1.064 trillion; and
- Reduce net discretionary spending by \$499 billion though non-defense discretionary spending would be reduced by \$759 billion beginning in FFY 2017 while overall defense spending is increased.

The committee summary does not specify how the \$1.064 trillion in non-health/Social Security mandatory spending would be made or distributed among mandatory programs. However, it does state that the Supplemental Nutrition Assistance Program (SNAP), which funds CalFresh in California, will be converted into a state block grant. The distribution of the \$759 billion in non-defense discretionary spending cuts among programs are not specified because funding levels for discretionary programs are set through annual appropriations bills.

The budget resolution also assumes that net Federal interest payments would drop by an estimated \$798 billion over the next 10 years because the reduced Federal spending (and deficit) would lower Federal borrowing costs. The budget resolution also includes reconciliation instructions for 13 House committees to submit legislation which would reduce the deficit. This includes instructions to the Committees on Energy and Commerce, Ways and Means, Agriculture, and Transportation and Infrastructure, which have jurisdiction over mandatory programs through which the County receives funding.

### **Potential Impacts of House Budget Resolution on the County**

If enacted into law, the House Budget Committee's FFY 2016 budget resolution would result in a major loss of Federal revenue to the County and a major increase in net County costs, especially for the County's health, mental health, and In-Home Supportive Services costs, which are financed by Medicaid. This is mainly because the budget resolution calls for deep cuts in Medicaid, which alone accounts for over half of the County's total Federal revenue.

The House Budget Committee's estimated \$913 billion reduction in Medicaid spending over the next 10 years would mean that total Medicaid funding would be reduced by more than 21 percent, based on the CBO's estimate that, under current law, Medicaid spending otherwise would total \$4.26 trillion in FFYs 2017 through 2025.

The revenue loss to California and the County would be even larger in percentage terms if the budget reconciliation legislation that converts Medicaid into a state block grant were to exclude past Medicaid payments for medical assistance associated with the ACA's Medicaid expansions in calculating each state's initial block grant allocation. That is, allocating the overall annual capped Medicaid funding among states is complicated by the fact that the ACA is repealed and that the ACA has resulted in far larger increases in Medicaid revenue for some states, such as California which opted to expand Medicaid eligibility and implement other new ACA Medicaid options than in other states which did not implement as many ACA state options.

The ultimate impact of the budget resolution on the County's Medicaid revenue also will be affected by how the enabling legislation allocates future Medicaid funding and how much flexibility is provided to states - most notably, by how much flexibility the State of California would have to reduce Medi-Cal eligibility, provider payments, and the scope of covered services - all of which could shift costs to counties. Moreover, if Medicaid is converted into a block grant, it is highly unlikely that states would continue to be required to make Medicaid Disproportionate Share Hospital payments to safety net hospitals, such as the County's.

The budget resolution does not specify how \$1.064 trillion in mandatory spending programs would be distributed. However, the County potentially could be hit hard by such cuts because other mandatory programs, such as the Temporary Assistance for Needy Families, Title IV-E Foster Care and Adoption Assistance, Child Support Enforcement, and SNAP, together account for most of the County's remaining Federal revenue after excluding Medicaid revenue.

The \$759 billion reduction in non-defense discretionary spending over 10 years also is likely to significantly reduce the amount of funding that the County will receive in the future through annual appropriations bills. These cuts would be on top of the reduced non-discretionary spending caps set under the Budget Control Act of 2011. For example, in the first five years of non-defense discretionary spending cuts (FFYs 2017 through 2021), overall non-defense discretionary spending would be reduced by an average of nearly 13 percent. The actual percentage reduction in discretionary funding for the County would be even higher if Congressional appropriators decide to make deeper reductions in state and local grant programs than in other discretionary programs and activities.

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### **Legislative Outlook**

The House Budget Committee began its mark-up of the FFY 2016 budget resolution on March 18, 2015. The Senate Budget Committee also began marking up its version of a budget resolution on March 18, 2015 after releasing far less detailed information on its draft budget resolution earlier in the day. This office will provide the Board with a report on the Senate version after more detailed information becomes available. It is expected that both the House and Senate Budget Committees will approve their respective budget resolutions on March 19, 2015. The Republican leadership in both houses plans to begin and complete floor action on the budget resolutions next week before Congress starts a two-week recess. Congressional Republican leaders hope to reconcile the differences and approve a final FFY 2016 budget resolution after Congress reconvenes on the week of April 13, 2015.

We will continue to keep you advised.

SAH:JJ:MR  
MT:ma

c: All Department Heads  
Legislative Strategist